

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15 (d) of the
Securities Exchange Act of 1934

For the quarterly period ended March 29, 1996

Commission File Number: 1-9249

GRACO INC.

(Exact name of Registrant as specified in its charter)

Minnesota

41-0285640

(State of incorporation)

(I.R.S. Employer Identification Number)

4050 Olson Memorial Highway
Golden Valley, Minnesota

55422

(Address of principal executive offices)

(Zip Code)

(612) 623-6000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
 ----- -----

17,327,862 common shares were outstanding as of May 9, 1996.
GRACO INC. AND SUBSIDIARIES

INDEX

Page Number

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statements of Earnings	3
Consolidated Balance Sheets	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	7
---	---

PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K	8
--	---

Computation of Net Earnings per Common Share
Financial Data Schedule

Exhibit 11
Exhibit 27

2

PART I

GRACO INC. AND SUBSIDIARIES

Item I. CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	Thirteen Weeks Ended	
	March 29, 1996	March 31, 1995
	-----	-----
	(In thousands except per share amounts)	
Net Sales	\$90,153	\$95,527
Cost of products sold	45,316	49,000
	-----	-----
Gross Profit	44,837	46,527
Product development	4,229	3,921
Selling	19,850	21,690
General and administrative	11,675	11,100
	-----	-----
Operating Profit	9,083	9,816
Interest expense	232	684
Other expense, net	566	396
	-----	-----
Earnings Before Income Taxes	8,285	8,736
Income taxes	2,700	3,300
	-----	-----
Net Earnings	\$5,585	\$5,436
	=====	=====
Net Earnings Per Common and Common Equivalent Share	\$.32	\$.31
	=====	=====
Cash Dividend Per Common Share	\$.12	\$.11
	=====	=====

See notes to consolidated financial statements.

3

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands)

ASSETS	March 29, 1996 ----- (Unaudited)	December 29, 1995 -----
Current Assets:		
Cash and cash equivalents	\$2,103	\$1,643
Accounts receivable, less allowances of \$4,977 and \$4,856	72,211	73,205
Inventories	44,915	41,693
Deferred income taxes	10,783	10,608
Other current assets	2,560	1,333
	-----	-----
Total current assets	132,572	128,482
Property, Plant and Equipment:		
Cost	160,162	156,168
Accumulated depreciation	(82,152)	(79,310)
	-----	-----
	78,010	76,858
Other Assets	12,642	12,493
	-----	-----
	\$223,224	\$217,833
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes payable to banks	\$5,164	\$5,051
Current portion of long-term debt	1,857	1,935
Trade accounts payable	13,329	13,849
Dividends payable	2,092	2,072
Income taxes payable	8,869	4,229
Other current liabilities	40,336	44,447
	-----	-----
Total current liabilities	71,647	71,583
Long-term Debt, less current portion	10,103	10,074
Retirement Benefits and Deferred Compensation	32,575	32,605
Shareholders' Equity:		
Common stock	17,414	17,265
Additional paid-in capital	22,073	20,397
Retained earnings	68,388	64,949
Other, net	1,024	960
	-----	-----
	108,899	103,571
	-----	-----
	\$223,224	\$217,833
	=====	=====

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Thirteen Weeks	
	March 29, 1996	March 31, 1995
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:	(In thousands)	
Net Earnings	\$5,585	\$5,436
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	3,299	3,282
Deferred income taxes	(605)	(292)
Change in:		
Accounts receivable	52	(3,044)
Inventories	(3,355)	(3,848)
Trade accounts payable	(367)	(2,405)
Retirement benefits and deferred compensation	89	1,342
Other accrued liabilities	887	(3,185)
Other	(1,084)	1,383
	-----	-----
	4,501	(1,331)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, plant and equipment additions	(4,485)	(7,526)
Proceeds from sale of property, plant, and equipment	5	322
	-----	-----
	(4,480)	(7,204)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowing on notes payable and lines of credit	1,937	33,557
Payments on notes payable and lines of credit	(1,662)	(23,739)
Payments on long-term debt	-	(2,210)
Common stock issued	2,271	2,071
Retirement of common and preferred stock	(446)	-
Cash dividends paid	(2,126)	(1,905)
	-----	-----
	(26)	7,774
	-----	-----
Effect of exchange rate changes on cash	465	(874)
	-----	-----
Net increase (decrease) in cash and cash equivalents	460	(1,635)
Cash and cash equivalents:		
Beginning of year	1,643	2,444
	-----	-----
End of period	\$2,103	\$809
	=====	=====

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. The consolidated balance sheet of Graco Inc. and Subsidiaries (the Company) as of March 29, 1996 and the related statements of earnings and cash flows for the thirteen weeks ended March 29, 1996, and March 31, 1995, have been prepared by the Company without being audited.

In the opinion of management, these consolidated statements reflect all adjustments necessary to present fairly the financial position of Graco Inc. and Subsidiaries as of March 29, 1996, and the results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Therefore, these statements should be read in conjunction with the financial statements and notes thereto included in the Company's 1995 Form 10-K.

The results of operations for interim periods are not necessarily indicative of results which will be realized for the full fiscal year.

2. Major components of inventories were as follows (in thousands):

	March 29, 1996	Dec. 29, 1995
	-----	-----
Finished products and components	\$44,604	\$40,335
Products and components in various stages of completion	23,291	22,597
Raw materials	11,890	13,152
	-----	-----
	79,785	76,084
Reduction to LIFO cost	(34,870)	(34,391)
	-----	-----
	\$44,915	\$41,693
	=====	=====

GRACO INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Net earnings in the first quarter of \$5.6 million increased \$0.1 million from the same period a year ago despite a decrease in sales. Sales were lower in all geographic regions. The earnings improvement came primarily as a result of a lower effective tax rate and lower interest expense in the first quarter of 1996 compared to 1995. Also contributing to the Company's improved earnings was a one percentage point increase in gross margin from 1995 as the result of price increases.

Sales in the first quarter of \$90.2 million decreased \$5.4 million, or 6 percent, from the same period in 1995. First quarter sales in the Americas decreased 5 percent to \$61.8 million and European sales declined 2 percent to \$15.8 million (a 6 percent volume decrease, and a 4 percent gain due to exchange rates). In Asia Pacific, sales decreased 12 percent to \$12.5 million (a volume decrease of 10 percent and a loss of 2 percent on exchange rates).

Operating expenses in the first quarter of \$35.8 million decreased \$1.0 million or 3 percent from the first quarter of 1995. Product development expense increased 8 percent over 1995 due to increased occupancy costs associated with the Company's Russell J. Gray Technical Center which opened in 1995. Selling expenses were 8 percent lower than the same period last year, largely due to lower headcount. General and administrative costs were up 5 percent, due primarily to expense items related to consolidating the Company's Franklin Park, Illinois operations. By relocating Franklin Park's industrial systems application engineering and sales expertise to Minneapolis, the Company will be well-suited to leverage its systems skills throughout the Company's entire technical group.

The effective income tax rate for the quarter was 33 percent compared to 38 percent for the same period in 1995. The decrease was due primarily to foreign earnings effectively taxed at lower rates.

While harsh winter conditions in North America and economic softness in many markets contributed to a slow first quarter of 1996, the Company is encouraged by recent positive trends. Incoming orders in the first quarter exceeded sales by \$10 million, increasing backlog to \$30 million. Toyota Motor Corporation in Cambridge, Ontario recently awarded an \$11 million contract to the Company to install a paint circulating system during the second half of 1996. Excluding subcontract work, the Company will recognize approximately \$4 million of sales from this project. The Company will continue to make further improvements to manufacturing efficiency and investments in new product development, while closely controlling expenses throughout the organization.

Financial Condition

Cash was provided by earnings and operating activities and used principally to fund property additions. Accounts receivable decreased \$1.0 million from the prior year-end due primarily to collection efforts in Europe and Japan, and property, plant and equipment purchases total \$4.5 million year-to-date.

The Company has unused lines of credit available at March 29, 1996 totaling \$66 million.

PART II

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Statement on Computation
of Per Share Earnings

Exhibit 11

Financial Data Schedule

Exhibit 27

(b) No reports on Form 8-K have been filed during the quarter
for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GRACO INC.

Date: May 13, 1996

By: /S/ George Aristides
George Aristides
President and Chief Executive Officer

Date: May 13, 1996

By: /S/ David M. Lowe
David M. Lowe
Treasurer
(Principal Financial Officer)

GRACO INC. AND SUBSIDIARIES

COMPUTATION OF NET EARNINGS PER COMMON SHARE

(Unaudited)

	Thirteen Weeks Ended	
	March 29, 1996	March 31, 1995
	-----	-----
(In thousands except per share amounts)		
Net earnings applicable to common stock:		
Net earnings	\$5,585	\$5,436
Less dividends on preferred stock	-	19
	-----	-----
	\$5,585	\$5,417
	=====	=====
Average number of common and common equivalent shares outstanding:		
Average number of common shares outstanding	17,315	17,124
Dilutive effect of stock options computed on the treasury stock method	238	124
	-----	-----
	17,553	17,248
	=====	=====
Net earnings per common and common equivalent share	\$.32	\$.31
	=====	=====

Primary and fully diluted earnings per share are substantially the same.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM GRACO INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EARNINGS AND CONSOLIDATED BALANCE SHEETS FOR THE QUARTERLY PERIOD ENDING SEPTEMBER 29, 1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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GRACO INC.
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3-MOS		
	DEC-27-1996	
	MAR-29-1996	
		2,103
		0
		72,211
		4,977
		44,915
	132,572	
		160,162
		82,152
	223,224	
	71,647	
		11,960
		17,414
	0	
		0
		91,485
223,224		
		90,153
	90,153	
		45,316
		45,316
		36,552
		(131)
	232	
		8,285
		2,700
	5,585	
		0
		0
		0
		5,585
		.32
		.32